

SERS PLAN 3 REPORT

Visit ICMA-RC on the Internet at: <http://www.icmarc.org/plan3/>

Education Employees Receive Annual Statements

Annual statements were distributed in November to employees of public school districts, educational service districts and higher education institutions. Plan 3 members receive quarterly statements showing the activity in their defined contribution account. Plan 3 annual statements provide the service credit earned in the defined benefit plan.

Your employer is responsible for reporting to DRS the information shown on your statement. If you have questions about the information, please review your records with your payroll office before contacting DRS.

Retirement plan members working for non-education employers will receive their annual statements in March.

Now is a Good Time to Review Your Retirement Portfolio

With a new year now upon us, many investors often take this time to evaluate their retirement portfolios. One of the best places to start is asset allocation.

In creating your current retirement portfolio, you likely performed an analysis of your risk tolerance, investment horizon and financial goals. From this analysis, you allocated a percentage of your investment portfolio to the major asset classes of stocks, bonds and cash.

However, during the course of the past year the stock portion of your portfolio may have grown larger than the bond portion. To get back to your original asset allocation, financial advisers suggest that you "rebalance" periodically in order to fine-tune the percentage of stock, bond and cash funds in your portfolio.

SERS PLAN 3 WSIB TOTAL ALLOCATION PORTFOLIO (TAP)

AS OF 12/31/2004

	AVERAGE ANNUAL RETURNS			
	4th Qtr 2004	1-Year	3-Year	5-Year
TOTAL ALLOCATION PORTFOLIO	7.35%	13.61%	7.93%	3.62%

The Washington State Investment Board (WSIB) periodically reviews and adjusts the TAP Fund's asset allocation. Over the last five years, the TAP Fund has shifted to a more aggressive asset mix. These returns reflect the actual asset mixes during the time periods shown.

SERS PLAN 3 SELF-DIRECTED FUNDS

AS OF 12/31/2004

	4th Qtr 2004	1-Year	3-Year	5-Year
MONEY MARKET FUND	0.38%	1.22%	1.39%	N/A
WASHINGTON STATE BOND FUND	0.73%	3.38%	5.79%	N/A
SOCIALLY RESPONSIBLE BALANCED FUND	6.52%	8.78%	N/A	N/A
U.S. LARGE STOCK INDEX FUND	9.21%	10.70%	3.45%	N/A
U.S. STOCK MARKET INDEX FUND	10.09%	11.79%	4.63%	N/A
U.S. SMALL STOCK INDEX FUND	13.97%	18.18%	11.26%	N/A
INTERNATIONAL STOCK INDEX FUND	15.17%	20.16%	9.87%	N/A
SHORT-HORIZON FUND	3.73%	6.19%	5.28%	N/A
MID-HORIZON FUND	6.49%	9.52%	6.77%	N/A
LONG-HORIZON FUND	9.26%	12.32%	6.77%	N/A

The SERS Plan 3 Self-Directed Funds were available for investment on September 1, 2000 and have no performance history prior to this date. Actual inception dates (start of fund activity) are: U.S. Stock Market Index, U.S. Large Stock Index, Mid-Horizon and Money Market on October 6, 2000; International Stock Index, U.S. Small Stock Index, Washington State Bond, Short-Horizon and Long-Horizon on October 10, 2000 and Socially Responsible Balanced Fund on April 1, 2004.

All returns are net of fees. Self-Directed funds are valued daily; your account balance and rate of return will vary accordingly. Past performance is no guarantee of future results. For more information about the funds, please see the *Plan 3 Investment Guide* or the Web site at www.icmarc.org/sers/investing.

Returns cover the period ending December 31, 2004.

N/A - Not Applicable

Rebalancing is simply the process of shifting assets from one category to another in order to maintain your targeted allocation. By spreading your portfolio assets among several funds, overall risk will be reduced. If you are in the Self-Directed program, and are investing in one of the Horizon Funds, rebalancing will not be necessary since the Washington State Investment Board reviews and rebalances the portfolios. If you are investing in the WSIB Investment Program's TAP fund, the WSIB reviews and rebalances these portfolios as well.

While you are rebalancing your portfolio, you may also want to consider taking a look at the type of equity funds in which you want to invest. Financial planners say true diversification means investing not only in different funds, but different kinds of funds - including small and large capitalization, growth and value, domestic and international.

By rebalancing the asset mix in your portfolio periodically you can maintain your target allocation and stay on course to achieve retirement goals.

Market Commentary as of November 30, 2004

The market during the last three months has been dominated by the U.S. presidential election. Third quarter reports suggest that the U.S. economy continues to grow at a steady pace. Corporate America, however, has yet to provide any significant stimulus; U.S. consumers have been driving much of the growth. Reports indicate that consumers are spending more than they are earning. The Fed met twice during the three-month period, raising interest rates each time and leaving the Federal Funds rate at its present 2 percent level.

Bonds

Fixed income markets finally saw the effects of rising interest rates, as the Lehman Brothers Aggregate Index rose 0.3 percent during the quarter. Bond prices suffered in November; the certainty gained from the presidential election results provided investors enough confidence to seek higher-risk investments. Treasuries in particular suffered the worst losses with longer-term bonds declining nearly 2.5 percent during November. However, the strong returns of early September helped offset the losses. High yield bonds remained a bright spot in the fixed income arena; investors who were able to stomach the lowest quality issues with longer maturities benefited as these bonds experienced dramatic gains during the quarter.

Stocks

After starting out the quarter on a rather sluggish note, U.S. stocks rallied late in October and throughout November to finish the quarter with solid gains. Small company stocks dominated their large company counterparts as the Russell 2000 Index rose 16.0 percent during the period versus the 6.3 percent return posted by the S&P 500 Index. Style preference was mixed during the period as value stocks outperformed in large companies while growth stocks outperformed in smaller companies. Energy had the greatest influence on the market year-to-date, and continued to perform well but gave way to Technology, which assumed the leading position for the three-month period. Healthcare was the only S&P 500 sector

to experience negative returns during the quarter as investors remained concerned over lackluster new product lines, increasing competition from generic drugs, and now an increased risk from product recalls and potential lawsuits.

Despite some shaky economies, international stock markets were able to keep pace with domestic stocks. The MSCI ACWI ex-US advanced 6.7 percent during the quarter, but nearly half of the gains were accounted for by the strength of virtually all foreign currencies versus the ailing U.S. dollar. Continental Europe was the best performing region during the quarter, while Japan performed roughly in line with the Index. Emerging markets continued to soar as November marked the fourth consecutive month of positive performance. The MSCI Emerging Markets Index finished the quarter up 11.6 percent, largely on strong gains in Europe and the Middle East, while Asia was held back by Taiwan.

*By Arnerich Massena & Associates
Due to printing requirements, this article includes market activity as of November 2004.*

Privacy Policy

The following is DRS' Plan 3 record keeper's (ICMA-RC) privacy policy.

We at the ICMA Retirement Corporation (ICMA-RC) recognize the sensitive nature of your personal financial information, and take every precaution to protect your privacy. In order to provide services to you, the Department of Retirement Systems (DRS) collects certain nonpublic personal information about you from your employer. DRS then provides that information to ICMA-RC, to allow your account to be serviced. Our policy is to keep this information strictly safeguarded and confidential. We will use this information only as necessary to provide services to you or as otherwise required or permitted by law. Our contract with DRS also requires us to maintain the privacy of your personal information. You can be certain your financial information will only be used within our strict guidelines. Our privacy policy and practices apply equally to nonpublic

personal information about former clients and individuals who have inquired about our services.

Information We Collect

“Nonpublic personal information” is personally identifiable financial information about you as an individual or your family. Nonpublic personal information we have about you includes information provided by DRS and information you provide to us in telephone calls, forms, and correspondence.

Information We Disclose

We use this information to process your requests and transactions, for example, to provide you with additional information about the investments available in your plan or to process a withdrawal. In order to service your account and carry out your instructions, we may also provide your personal information to firms that assist us in servicing your account. For example, we will provide your address to the vendor that mails your quarterly financial statements. We do not provide customer names and addresses to outside firms, organizations or individuals except as provided to conduct official business on your behalf, or as otherwise allowed by law. In addition to our own policies, our contract with DRS requires us to maintain all information regarding plan members confidential. We are prohibited from disclosing, using, selling or sharing your personal information except to conduct business on your behalf or as directed by DRS.

How We Safeguard Your Information

We restrict access to nonpublic personal information about you to those persons with ICMA-RC who need the information to provide services to you or who are permitted by law to receive it. We maintain internal policies and procedures to safeguard your personal information.

If you have any questions regarding our Privacy Policy, please contact us at 1-888-711-8773.